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Viewing cable 09CARACAS1537, Venezuelan government takes over three additional banks; key

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Reference ID	Created	Released	Classification	Origin
09CARACAS1537	2009-12-07 22:54	2011-08-30 01:44	CONFIDENTIAL	Embassy Caracas

Appears in these articles:

<http://www.semana.com/mundo/wikileaks-venezuela-salio-director-del-canal-globovision/158625-3.aspx>

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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001537

SIPDIS
ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO AND LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO
AMEMBASSY BRIDGETOWN PASS TO AMEMBASSY GRENADA
AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE

SUBJECT: Venezuelan government takes over three additional banks; key minister resigns as probe widens

REF: 09 CARACAS 1491; 09 CARACAS 1509; 08 CARACAS 566

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (C) Summary: The Venezuelan government (GBRV) announced December 4 that it was taking control of three more banks, in addition to the four it took over November 20. While these three banks are small, the growing scale of the GBRV's intervention has had a number of repercussions in the financial sector, parallel foreign exchange market, and international market for Venezuela's bonds. If the GBRV does a poor job managing its unfolding intervention, there is the potential for broader risk to the banking sector, particularly among smaller and medium-sized banks. Perhaps realizing this risk, President Chavez clarified his recent threat to nationalize the sector by saying he only meant he would take over any bank not complying with the law.

¶2. (C) Summary, continued: As part of its investigation into irregularities at these banks, the GBRV detained Arne Chacon, president at one of the banks and brother of Science, Technology, and Intermediate Industries Minister Jesse Chacon. In a move that surprised many observers, President Chavez announced December 6 that he had accepted Jesse Chacon's resignation as it would "facilitate" the investigation into Arne. President Chavez is clearly using this crisis to bolster his anti-corruption credentials by demonstrating he is willing to go after people close to his inner circle. End summary.
GBRV Takes Over Three More Banks

¶3. (U) In a press conference on the afternoon of December 4, Minister of Finance and Economy Ali Rodriguez announced the GBRV was taking over three additional banks: Central Banco Universal (not to be confused with Venezuela's Central Bank), Banco Real, and Baninvest. Rodriguez said the intervention would be "closed doors," i.e. the banks would be temporarily closed for all transactions while the GBRV determined a course of action. Rodriguez said the intervention was necessary because the banks had not been able to carry out measures to bring themselves into compliance with regulations. Rodriguez said the rest of the banking system was "in good condition." (Note: The three banks are all small, representing a total of 3 percent of the banking system as measured by assets. As with the four banks the GBRV took over November 20, all three are owned by a group with close ties to the GBRV that has made recent banking acquisitions that raise questions about origin of funds [refs A and B]. It is possible that the three banks suffered mini-runs in the week leading up to their seizure. End note.)

¶4. (U) In his regular Sunday television show on December 6, President Chavez said Central, Real, Bolivar, and Confederado would be merged with Banfoandes (a state-owned bank) into a new state-owned bank to be named "Banco Bicentenario." (Note: Bolivar and Confederado are two of the four banks the GBRV took over November 20. Chavez did not say what the GBRV intended to do with Baninvest. End note.) Chavez said the GBRV had also taken over Seguros La Previsora, a large insurance company recently acquired by the same group that owned Central, Real, and Baninvest, and would transform it into a state-owned insurance company called "Bolivariana de Seguros." Chavez said on December 4 that clients of Canarias and Banpro, the two other banks taken over November 20 and which the GBRV has determined to liquidate rather than try to restructure, would have access to their savings by December 24 in accordance with the law guaranteeing bank deposits up to 10,000 bolivars (USD 4651 at the official exchange rate). The GBRV has taken actions to accelerate the liquidation process by modifying the regulations governing the process and seeking the assistance of a number of private banks in processing depositors' requests. Consequences in the Financial Sector, Parallel Market, and Bond Market

¶5. (U) The unfolding intervention process has had a number of consequences in several related financial markets. While we do not

know the extent, there has clearly been a "flight to quality," as some depositors in smaller or less reputable banks moved their money to larger and more solvent banks (or switched money between accounts to reduce their exposure given the Bs 10,000 guarantee). In an indication of a higher demand for dollars, the parallel foreign exchange rate jumped from 5.5 Bs/USD on November 30 (when the GBRV announced it was liquidating or temporarily shutting the four banks it took control of November 20) to 5.9 Bs/USD on December 3, before falling slightly to 5.8 Bs/USD on December 4. Finally, yields on internationally traded Venezuelan bonds jumped (i.e., prices fell) during the week of November 30, as liquidity became tighter and financial institutions sold dollar-denominated assets to acquire bolivars through the parallel market. As the GBRV announced the three additional interventions in the late afternoon on December 4 and December 7 is a previously scheduled banking holiday, it is not yet clear how the additional interventions will impact financial markets.

The Scandal Touches Chavez's Inner Circle

¶6. (SBU) In connection with its investigation into the seven banks, the GBRV has ordered the detention of many of their directors and executives including Arne Chacon, president of Banco Real and a member of the group that owned Real, Central, and Baninvest. Chacon, who was detained on December 4, is the brother of Jesse Chacon, Minister of Science, Technology, and Intermediate Industries. Jesse Chacon is a member of Chavez's inner circle of loyal military colleagues who participated in Chavez's 1992 attempted coup and who have cycled through key government positions since Chavez assumed power in 1999. Chavez announced December 6 that he had accepted Jesse Chacon's resignation. He said Arne Chacon's detention showed "there are no untouchables" and characterized Jesse Chacon's resignation as "a lesson for all of us." Claiming he had never met Arne, Chavez said he respected and cared about Jesse and that Jesse's resignation was the right thing because it would "facilitate" the investigation into Arne by "liberating him [Jesse] from suspicion as a Minister and brother [of Arne]." In a media interview, Jesse Chacon affirmed he had chosen to resign not because he had been involved in his brother's financial dealings but because it would facilitate a transparent investigation.

Comment 1: Potential Risk to the Financial Sector

¶7. (C) Venezuela's financial sector is characterized by a significant concentration in five larger and generally well-regarded banks and a proliferation of roughly 50 smaller and medium-sized banks, many of which are weak enough to be threatened by a moderate run (ref C). This figure includes a number of smaller banks that specialize in certain sectors, of which Baninvest is one. Respected analyst Francisco Faraco (strictly protect) in his September 2009 assessment of the sector rated 23 of 54 banks as having "potential conditions for a collapse" or an "elevated possibility of bankruptcy." All seven banks the GBRV has taken over fell into these latter categories. The largest bank falling into one of these categories is Banco Federal, which represents 3 percent of the banking sector as measured by assets and is reportedly in the process of being sold.

¶8. (C) In the absence of a run, the GBRV should be able to handle the intervention at the seven banks, and even at other small banks should it become necessary. Although it is impossible to quantify, there is the risk of runs at other smaller and medium-sized banks. After seeing depositors at seven banks at least temporarily lose access to their funds, it would be understandable for depositors at other banks, including Banco Federal, to be nervous. While the initial November 20 intervention appeared reasonably well coordinated, there have been problems with the unfolding intervention process from the standpoint of calming depositors at other banks. These problems include changing the initial intervention from "open doors" to "closed doors" or liquidation; widening the scope of the interventions after assurances that the rest of the financial sector was healthy; and President Chavez's statement that he might nationalize the banking sector if bankers did not comply with the law, widely interpreted as a threat to the sector (ref B). It seems that even President Chavez realizes that the GBRV needs to be careful in its management of the unfolding intervention process: on December 6 he noted he did not say he

would nationalize the sector, only that he would nationalize any bank not complying with the law. End comment 1.

Comment 2: The Politics Behind the Interventions and Chacon's Resignation

¶9. (C) Whatever the initial reason for the interventions, President Chavez is using them to portray himself as a campaigner against corruption. Polls show that many of Chavez' supporters believe he seeks to govern in their best interests and blame those under him for any governance problems, including corruption. During the December 6 "Alo Presidente," Chavez urged the assembled delegates to the PSUV Congress to improve their "radar" against corruption within PSUV (United Socialist Party of Venezuela) and government ranks. Alluding to Arne Chacon, Chavez asked, "How could a dirt poor guy ("pato de tierra"), who started the same place I started, suddenly get to be the owner of a bank?" Chavez urged the delegates, many nodding their heads in approval, to watch for signs of unexplained, sudden wealth by party and government officials and to denounce them.

¶10. (C) Chavez distanced himself from Arne Chacon, whom he said he had never met ("I think he was in the Navy") and with whom he said he had had only one conversation, during which Arne expressed some "strange ideas" ("ideas raras"). By detaining Arne and having Jesse Chacon resign, Chavez is bolstering his image and sending a message to others in his inner circle that there are limits to what he will tolerate. Press articles have indeed suggested that other confidantes may be implicated, including former Vice President Jose Vicente Rangel, Minister of Public Works Diosdado Cabello, Director of Military Intelligence Hugo Carvajal, and his own brother Adan Chavez, to whom Chavez also issued a public warning. Chavez may wait a decent interval and then rehabilitate Jesse after the banking scandal has passed. End comment 2.
DUDDY